February 25, 2008

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: FFIEC 101

Office of the Comptroller of the Currency
Communications Division
Public Information Room
250 E Street, S.W.
Mail Stop 1-5
Washington, DC 20219
Attention: 1557-NEW

Re: FFIEC 101

Ms. Valerie Best
Supervisory Counsel
Attention: Comments Room F-1070
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

Re: FFIEC 101

Information Collection Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, N.W.
Washington, DC 20552

Attention: FFIEC 101

Re: Joint Notice of Proposed Advanced Capital Adequacy Framework Regulatory Reporting Requirements Relating to Basel II (FFIEC 101)

Ladies and Gentlemen:

The Clearing House Association L.L.C. ("The Clearing House")[1] and the American Bankers Association ("ABA")[2] appreciate the opportunity to comment on the proposed revisions (the "proposal") to the Regulatory Reporting Requirements relating to Basel II ("FFIEC 101") published by the Office of the Comptroller of the Currency, the Board of

---

[1] The Clearing House is an association of major commercial banks. Its members include: ABN AMRO Bank N.V.; Bank of America, National Association; The Bank of New York; Citibank, N.A.; Deutsche Bank Trust Company Americas; HSBC Bank USA, National Association; JPMorgan Chase Bank, National Association; UBS AG; U.S. Bank National Association; Wachovia Bank, National Association; and Wells Fargo Bank, National Association.

[2] ABA brings together banks of all sizes and charters into one association. Its members – the majority of which are banks with less than $125 million in assets – represent over 95 percent of the industry's $12.7 trillion in assets. ABA also consulted with the other "core" banking firms on the proposal.

Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision (together, the "Agencies"). Our comments on this proposal, which were developed in consultation with representatives from all the "core" Basel II banking firms, are presented below.

A) <u>Calculation of the 6% scaling factor for credit risk assets</u>:

On the recently released draft reporting schedules, Schedule B, Line 28 "Total Credit Risk-Weighted Assets (Cell G27 x 1.06)", indicates that the total credit risk-weighted assets on that schedule would be subject to the 6% gross up factor. Included in lines 24 to 26 of Schedule B are three types of "Other Assets" which we believe should not be subject to this gross up: "Unsettled Transactions", "Assets not included in a Defined Exposure Category", and "Non Material Portfolios of Exposures". These exposures are subject to Basel I-type risk weightings, as they are calculated based on mandated percentages from the regulators, or conservative estimates, and are not calculated from internal models.

The U.S. Basel II final rule defines Credit Risk-Weighted Assets as "1.06 multiplied by the sum of: (1) Total wholesale and retail risk-weighted assets; (2) Risk-weighted assets for securitization exposures; and (3) Risk-weighted assets for equity exposures". This excludes the "Other Assets" that have mandated risk weights. We believe exposures in the "Other Assets" category should not be included within the x1.06 scalar for the following reasons:

(i) These exposures are not captured within the defined Basel II credit risk exposure categories, and/or
(ii) These exposures have been mandated to receive Basel I-type risk weightings, or
(iii) Banking organizations expect to make use of conservative risk weighting defaults to derive risk-weighted assets for certain exposures where the portfolios are either *de minimus* or where some data elements are not readily verifiable.

We believe that the scalar was intended to compensate for the use of internal estimations that are inherent in the Advanced Internal Ratings-Based approach introduced by Basel II, and were not intended to adjust other types of exposures.

Therefore, we request that the Agencies give consideration on Schedule B to only applying the x1.06 scalar to the sum of (1) Total wholesale and retail risk-weighted assets; (2) Risk-weighted assets for securitization exposures; and (3) Risk-weighted assets for equity exposures. In addition, we request that the Agencies clarify why the 6% scaling factor should be applied in cases where mandated percentages are used in the Ratings Based Approach for securitization exposures.

B) Disclosure requirements of Schedules A & B by certain subsidiaries:

The final rules issued on December 7, 2007 introduced the requirement that all material U.S. banking subsidiaries of a Bank Holding Company ("BHC") would have to implement the Advanced Approaches if their BHC is required to implement the Basel II Advanced Approaches. The instructions for the FFIEC 101 report require public disclosure of Schedules A and B by all material subsidiaries of U.S. banks subject to the Advanced Approaches, not just the BHC. The only apparent reason for public disclosure by these smaller subsidiaries is that the Advanced Approaches have been mandated because they are U.S. banking subsidiaries. Therefore, we seek confirmation or clarification that U.S. banking subsidiaries that do not qualify to implement the Advanced Approaches due to their own small size, but which are subsidiaries of "advanced" method BHCs, are exempt from publication of Schedules A and B. This would promote consistent treatment of banks of similar size and not impose additional reporting costs.

C) Schedules C to G require reporting of weighted average LGD before consideration of eligible guarantees (and credit derivatives) and require the effect of PD substitution and LGD adjustment approaches on RWA:

The impact of guarantees and credit derivatives on the calculation of risk-weighted assets (column I for Schedules C to G) is a U.S.-only requirement for Basel II. We believe this requirement would be unduly burdensome, and in our view, would be of uncertain value to the extent that it requires a recalculation based on the presence of an eligible guarantee.

The clarification in the notice of January 24, 2008 allows banks to omit the impact of eligible guarantees where the PD substitution approach is taken. While this is welcome, we believe this clarification still requires banks to calculate the impact of guarantees for obligors with part of their facilities guaranteed. This reduces the volume but does nothing to reduce the number of systems changes and complex data analysis required. The identification and calculation would be unduly costly in relation to the result, and hence, we believe, as set out below, that there is almost no value to the result.

While eligible guarantees may well cover a specific facility (e.g., a leasing contract where a lessor covers the risk associated with a new item of equipment, or an export credit guarantee, or a wealthy private individual guaranteeing a particular facility for a family-owned company), they may not always cover the whole exposure. In addition, situations arise where a parent will guarantee a subsidiary in a developing country, and without the guarantee, the rating of the exposure would be capped at the sovereign rating of the country. Banking organizations are asked to strip out the impact of these guarantees and recalculate the risk without the guarantee. Calculating the risks associated without such guarantees would require a re-engineering of credit risk records and could require changes to credit risk practices by allocating risk to the obligor rather than the guarantor. This would require changes to established credit risk recording systems as these facilities would currently be aggregated for risk purposes with those of the

provider of the guarantee. We note that the Canadian regulators have dealt with this problem by requiring only the related EAD amounts, which does not require additional processing.

We also question the benefit of such information. While we accept that it may well be relevant to report the impact of credit derivatives, the additional complexity and cost of backing out eligible guarantees seems very uncertain. If the Agencies insist that this type of information is significant, then we believe the only practical approach is to ask for related EAD amounts and not require "with and without" risk-weighted asset calculations. However, we would prefer to eliminate eligible guarantees from this reportable item and restrict it to reporting just the impact of the hedge received from credit derivatives.

For example: Bank ABC has an exposure of $100mm to a parent rated A which includes a guarantee over $10mm to a subsidiary in a developing country whose rating is capped by the sovereign rating at BB+. Bank ABC also has $5mm already advanced locally to that subsidiary with all amounts due from the subsidiary secured on local assets. Assuming a maturity of 2.5 years and a LGD of 35% unsecured and 20% secured, our calculations would be:

	Internal Measurement	**Adjusted without Guarantee**
Average LGD	34.3%	32.9%
Risk-Weighted Assets	19.0	21.2
Impact of Parent Guarantee		+2.2

We question whether the additional information provided from the calculation by stripping out the impact of the guarantee is of any significant value. In this case, the LGD is reduced but risk-weighted assets increase. We believe this information is of little practical value especially when aggregated across many obligors, and particularly as the impact on LGD can be very different from the impact on risk-weighted assets, which could result in misleading trends in the information when changes in the components occur. We believe it would be far better to look for risk concentrations within the actual risk-weighted asset numbers as they can result in significant additional risk, rather than require banks to undertake this unnecessary calculation at the cost of considerable additional systems requirements and recordkeeping complexity.

D) Retail schedules still require weighted average bureau scores, but the Agencies acknowledge that banks may not have all the bureau data and so can omit those accounts for which the data is not available:

Schedules K to O require the weighted average bureau score to be reported to the extent that it is available. However, the bureau score is not always updated, especially where an internal model is used as a determinant of original decision making. In addition, the cost to banks of maintaining up-to-date bureau scores for all U.S. borrowers would be significantly out of proportion to any business benefit. Since the reporting instructions indicate that the bureau score can be omitted from the average calculation where it is not available (e.g., international portfolios) and many approximations are allowed, we believe this information will fail to provide useful data. Even the trend in the average bureau score is unlikely to provide useful data, given the limitations of the bureau score not being updated and not providing for a wide range of international portfolios. Moreover, since this information will not be updated, it will not necessarily reflect the changes in risk profile within the segments reported. Thus, we suggest that the Agencies seriously reconsider requiring average bureau scores at all.

E) For mortgages, the reporting schedules still require weighted average age based on date of origination, not months on book. The Agencies have confirmed in their notice of January 24, 2008 that banks have to obtain the original origination date for mortgages purchased even when that measure is not currently used either to segment the portfolio or to manage the mortgage:

Obtaining the origination date of all mortgages so that a bank can complete the reporting line on Schedules K, L, and M would be extremely burdensome – particularly since this information is not used by banks internally to evaluate the risk of their mortgage portfolios. When managing a mortgage, the months on book is not as good an indicator as to whether a bank will receive full payment for the mortgage as the LTV, the current level of delinquency of the mortgage, how much longer the loan is to remain outstanding in order for it to be paid off, or the financial circumstances of the mortgagee. Therefore, we question the Agencies' need for data going back to origination. To obtain this data, banks will need to access files of mortgages purchased from other institutions, which will often be in remote storage, and a typical cost would be approximately $25 per mortgage when taking into account the time to obtain the files and input the data, and the resulting overhead costs. Therefore, we request that the Agencies reconsider this decision.

F) Schedule S - Operational Risk:

The reporting instructions for Schedule S require the reporting of data "used in calculating the risk-based requirement for operational risk". In Schedule S, capital changes only when the model is updated. If the model input is not updated from the prior period, then capital is unchanged. Therefore, we recommend that the Agencies require Schedule S to be filed on an annual basis or when the model input is updated.

G) Schedule B, Lines 21-23 - Equity Exposures:

According to the preamble section V. F. 1. "Introduction and Exposure Measurement", "The final rule clarifies the determination of the effective notional principal amount of unfunded equity commitments. For an unfunded equity commitment that is unconditional, a bank must use the notional amount of the commitment. If the unfunded equity commitment is conditional, the bank must use its best estimate of the amount that would be funded during economic downturn conditions."

A bank may have certain unconditional, unfunded commitments related to private equity funds and community development that might otherwise be reported in Column C "Total Undrawn Amount". However, the Agencies appear to not require reporting of this data, as this column is blocked for Equity in the current draft. We request clarification as to whether these commitments should be reported on the proposed Schedule B, given that Column C is currently shaded.

H) Reporting due dates:

The notice of January 24, 2008 provides that the FFIEC 101 schedules will be due 60 days following the end of a quarter during the parallel run period. Once a bank qualifies to use the Advanced Approaches and enters the transitional floor period, the Agencies believe the bank should have the ability to fully support regulatory capital calculations to coincide with the timing of other financial disclosures. Accordingly, all schedules – not just Schedules A and B – must be submitted within the same timeframes set forth in the reporting instructions for the Call Report and FR Y-9C filed by banks and BHCs, respectively.

As permitted by the final rule, a bank may provide a summary table on its website that specifically indicates where all Pillar 3 disclosures may be found, including in its Form 10-K. Form 10-Ks are not filed with the SEC until 60 days after year-end. This creates a timing issue for certain disclosures that will be referenced from a disclosure matrix to a Form 10-K. As the Agencies noted, some of the information in the FFIEC 101 overlaps with the Pillar 3 requirements. Therefore, such overlapping disclosures should be made consistent.

We recommend delaying Basel II year-end reporting due dates to correspond with the later of regulatory or SEC reporting due dates. Please refer to page 3 of the Appendix of The Clearing House comment letter dated March 26, 2007 for further information.

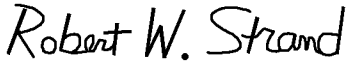
I) <u>Lookback portfolios</u>:

The Agencies also mention that a separate document will be released for reporting under "lookback" portfolio scenarios. We continue to object to any formal reporting requirements for "lookbacks". Please refer to The Clearing House comment letter dated March 26, 2007 for further information.

* * * * * *

We believe the above additional requirements add significantly to the cost of reporting and do not provide the Agencies with much added value in terms of understanding the risks within the portfolios or the way business is conducted in practice. We look forward to your consideration of our views.

Sincerely yours,



Norman R. Nelson
General Counsel
The Clearing House Association L.L.C.

Robert W. Strand
Senior Economist
American Bankers Association